

Investment View

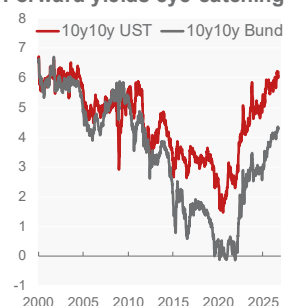
Liquidity is confidence

30 September, 2026

'Investment View' provides our quarterly macro & market outlook and investment recommendations

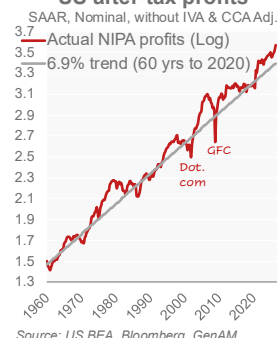
- The bond vigilantes are back with a vengeance. Markets have aggressively repriced the expected path of policy rates, on renewed inflation fears and the remarkable economic resilience to the US/Iran conflict.
- Central banks are ill-equipped to counter supply shocks, and demand shocks (AI capex) with a relatively low sensitivity to interest rates. For now, stick to the government bond underweight and prefer curve steepeners.
- The sharp rates sell-off has created opportunities in the belly of interest rate curves. But we stay cautious with the long ends. What may flip our duration views? Tactically, (elusive) de-escalation in Iran; more structurally, (still absent) signs of fatigue in the AI capex super-cycle. In the meantime, repeated episodes in recent years of evaporating Treasury liquidity argue against catching the falling knife.
- We recommend buying the dips in Corporate Credit (after spreads widened in September), as recession risks still appear remote. Energy and Tech have kept global equities afloat, but the bond rout has opened cracks under the hood; we maintain a cautious overweight, as seasonals improve in the autumn, and another stellar earnings season is looming. But hedging has rarely made more sense, as volatility remains low and stock-bond correlation elevated.
- The financing of the US current-account deficit is increasingly shifting from foreign purchases of Treasuries toward inflows into US equities. This may erode the safe-haven role of the USD, making the "dollar smile" asymmetric.

Forward yields eye-catching



Source: Bloomberg, GenAM

US after-tax profits



Source: US BEA, Bloomberg, GenAM

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LIQUIDITY IS CONFIDENCE

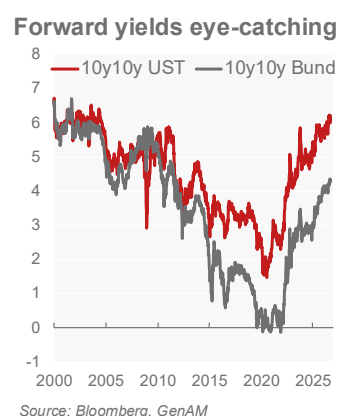
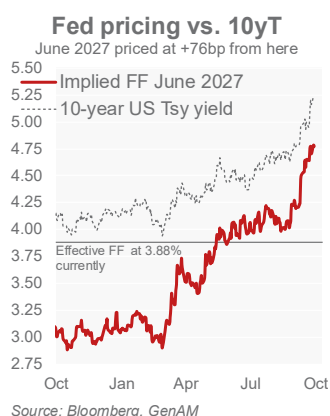
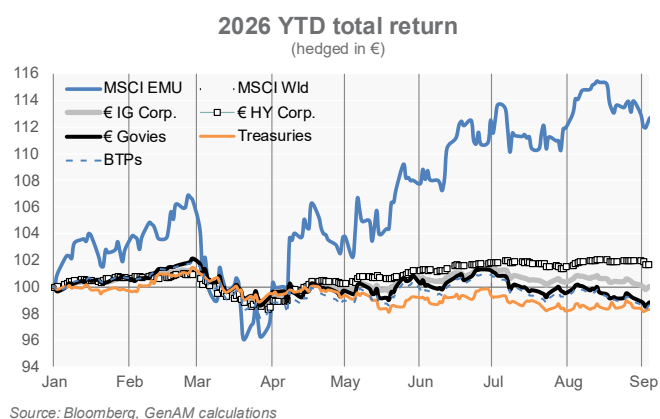
Vincent Chaigneau

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Bond rout. Three months ago ([The fight for capital](#)) we warned that the AI capex super-cycle, combined with elevated government deficits, would "re-shape the savings–investment balance and support a regime of higher interest rates". Bond yields have surged beyond our expectations, in part because the US/Iran peace-deal that looked within reach in June has proved very elusive. So far, global equities have resisted the surge in yields – the drawdown from the mid-August peak has been limited. Looking under the hood, however, the Energy and Tech sectors largely explain that resilience, while others like Real Estate, the Consumer and even Financials have lost 5-10% (in Europe).

One key driver has been the sharp repricing of central banks, e.g. chart 2 below shows the implied Fed rate for June 2027. Even after the September hikes, forwards are now pricing a whopping 100bp tightening from both the Fed and the ECB over the coming year. This hawkish repricing has pushed real yields sharply higher across the curves, and nominal yields along with them. Long-dated forward yields are reaching

Bond rout... Who wants to catch the falling knife?

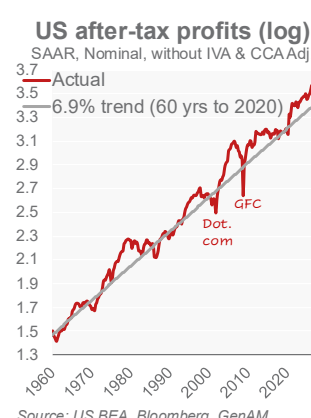
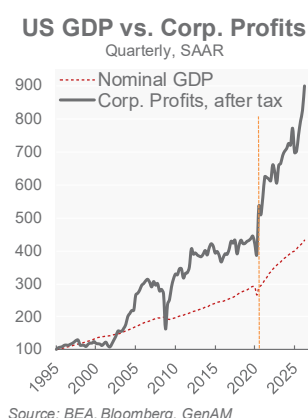
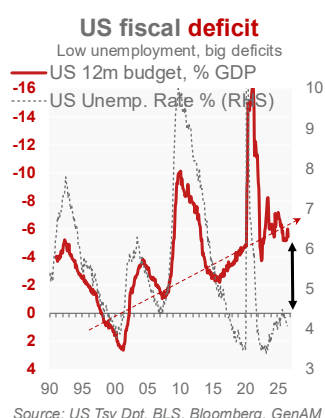


eye-catching levels, e.g. 10y10y near 6.30% in US Treasuries (chart 3). Who wants to catch the falling knife? Increasingly, the fate of global markets appears to be in the hands of bond investors, as surging yields expose economic and financial stability.

Higher for longer public deficits and corporate profits

Rising yields are themselves fuelling budget concerns by increasing the cost of debt

Poor public finance governance. Our faithful readers know that for years our structural preference for Corporate over Government bonds has been rooted in the deteriorating public balance sheets, vs. improving private ones. Rising yields are themselves fuelling budget concerns by increasing the cost of debt. According to the CBO, US debt-service costs are projected to rise from 3.3% of GDP in 2026 to 4.6%



in 2036. At unchanged policies, this would add further to a deficit already close to 6% of GDP – even though the economy is operating near potential and unemployment is low (left chart above). What will the public deficit be through the next recession?

Meanwhile, profits are surging. The two middle charts above show the extraordinary acceleration in US corporate profits – at the heart of the strong equity market performance since the start of the 2020s. US nominal GDP itself has been unusually strong in this decade – partly on higher inflation trends – yet profits have outshined that by a large margin. Are profits now abnormally high, hence unsustainable? The last chart above shows that, historically, significant deviations from trend have proved temporary, and have often been “punished” by a severe subsequent correction. The last two examples were the dot.com bubble burst and the Great Financial Crisis. Will the Tech margins and profits – which have been the main driver in this cycle – prove to be unsustainable? For now the AI race, driven by a ‘winner-takes-all’ mentality, is looking unstoppable, and lifting many (economic) boats.

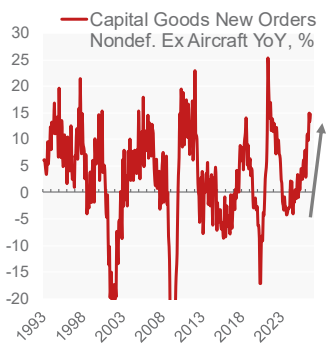
A very challenging cycle for central banks

The global economy has been remarkably resilient to the negative supply shock emanating from Iran. The spectacular AI capex super-cycle largely explains it. The first two charts below show how strong capital spending has revived the global manufacturing sector. The forward-looking indicators, e.g. Orders/Inventories, suggest that we may be past the peak of this manufacturing boom, however. Meanwhile, the mighty US consumer has resisted deteriorating real wage trends. Indeed, the large savings accumulated through the pandemic and the equity-powered positive wealth effect have pushed the saving rate down to a mere 3% (third chart below). Persistently high inflation and rising yields are significant threats to this cycle, but for now AI capex is charging ahead, and the textbooks remind us that private investment has the highest multiplier effect.

Historically, significant corporate profit deviation from long-term trend have proved temporary

AI capex lifts all boats: the global economy has been remarkably resilient

US core Cap. Goods Orders



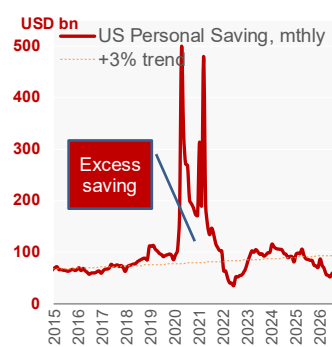
Source: US Census Bureau, BBG, GenAM

Manufacturing revival



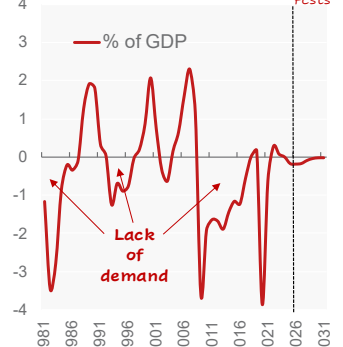
Source: ISM, GenAM

US consumer 'dissaving'



Source: BEA, Bloomberg, GIAM

G7 Output Gap



Source: IMF, Bloomberg, GenAM

The AI revolution will eventually be a positive supply shock, but for now it creates a demand shock

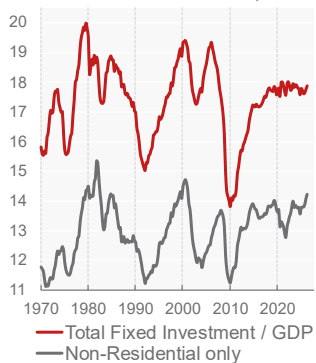
A demand shock. While we expect the AI revolution to eventually be a positive supply shock – an unlimited supply of intelligence may well support both productivity and disinflation – for now it creates a demand shock in data centres and compute, a boon for ‘picks-and-shovels’ companies. This shock adds to inflation, e.g. memory chip prices have surged, impacting electronic goods and the whole, increasingly tech-heavy, manufacturing sector. More generally, the era of excess supply (or insufficient demand) that prevailed after the GFC is over (top-right chart above).

This creates unusually tough challenges for central banks: containing inflation would probably require taking key rates above “neutral”, at the risk of derailing both the economy and global markets. Indeed, central banks are ill-equipped to counter supply shocks (Iran, climate), while the demand shock stemming from colossal AI capex appears relatively insensitive to interest rates. Yet central banks can scarcely afford another loss of credibility, following the inflationary episode of 2022–23. A productivity boom may well support disinflation eventually, but timing remains uncertain. In the meantime, a deal in Iran would be most welcome, cooling down the price of energy and food, hopefully in time to limit pass-through to core inflation. For now, however, Iran might still be willing to impose maximum pain ahead of the US mid-term elections (November).

Tracking the AI capex super-cycle

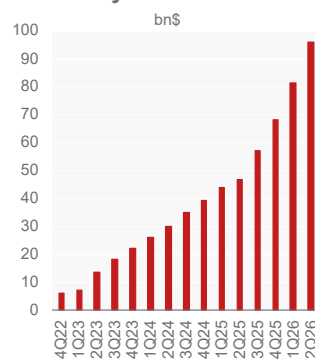
So far so strong. The AI cycle is most important to investing in the current environment. Typically, any sign of tech capex plateauing or even reversing would be a very strong trigger to increasing our duration recommendation.

US Fixed Inv. / GDP, %



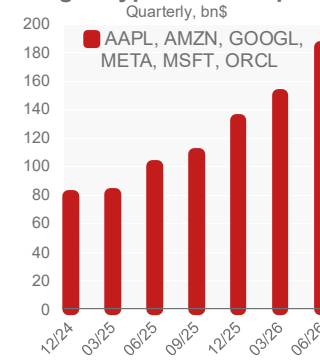
Source: BEA, Bloomberg, GenAM

Quarterly Nvidia revenues



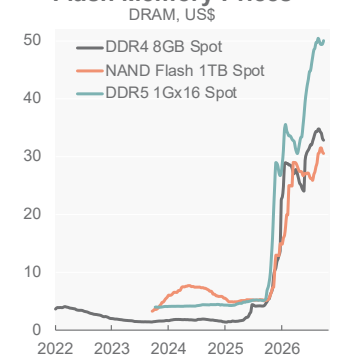
Source: Bloomberg, GenAM

Big-6 Hyperscaler Capex



Source: Bloomberg, GenAM

Flash Memory Prices



Source: Bloomberg, GenAM

Track the AI capex super-cycle through both quantities and prices

AI capex has pushed total US fixed investment to levels close to, but still lower than those of the late nineties. The latter eventually proved to be an investment bubble, leading to the dot.com crash. Yet Tech investment at the time was far less profitable than it is today. We may be concerned about the profitability of AI frontier models – given the sharp competition from open-weight models – but for now the AI race is proving extremely profitable for the overall Tech sector. Profits are likely enjoying a sugar rush, as the capex orders create immediate profits for the infrastructure providers, while costs will be amortised over many years. But for now the profits of the overall ecosystem, and the large net cash flow of the current winners of that race (the Nvidias of this world), may well feed that investment wave for longer. Arguably, the operating cash flows for the five hyperscalers are no longer sufficient to fund AI capex – corporate re-leveraging is in motion – but the cycle appears to be alive and well.

No clear sign of AI capex plateauing just yet

To track this capex super-cycle, investors must look at various metrics, both quantities and prices, e.g. AI revenues, hyperscaler capex (quarterly announcements) and memory chip prices. The latter may be finally peaking (right-hand chart above); there is evidence of an ongoing fall in AI token prices too. Yet token consumption is also surging, and even cheaper and smaller AI models are very demanding in compute – e.g. Kimi – hence the capex race may well continue for longer.

Are bond yields high enough yet?

Policy contradictions hurting investor confidence in Treasuries

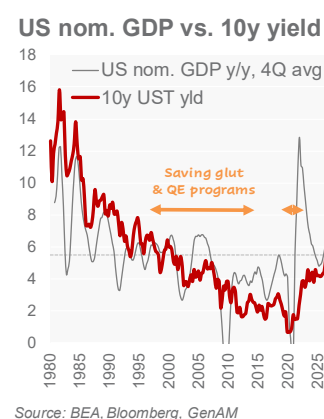
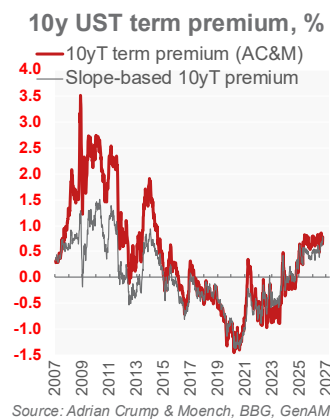
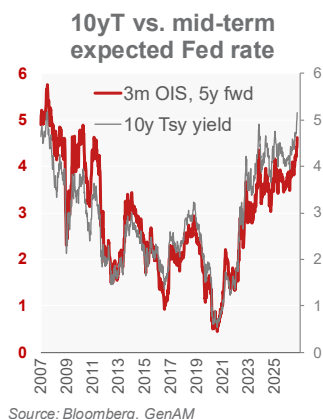
The loss of fiscal credibility is creating additional challenges for central banks, which risk being caught between price stability and public debt sustainability. Treasury Secretary Scott Bessent's announcement of an Operation Twist will further shorten the average duration of the debt, increase rollover risk, and amplify the impact of Fed decisions on the interest burden. Such interventionism *contrasts* with the preferences of Kevin Warsh, the new Fed Chair, who wants to allow market forces greater scope (less "forward guidance") and reduce holdings of long-dated Treasuries on the Fed balance sheet. Such policy contradictions are not helping Treasury market stability.

"Liquidity is confidence," K. Warsh said. Mind the repeated episodes of vanishing Treasury liquidity since 2020

Warsh's reduced forward guidance could itself increase volatility (hence risk). The ownership structure of Treasuries has changed profoundly: the shares held by the Fed and foreign central banks have declined, while that of private domestic investors has risen from 30% ten years ago to now well above 50%; these buyers demand greater compensation for risk. Hedge funds' share has climbed to 8.5%, increasing the well-[documented](#) threat of disorderly unwinds of leveraged positions. "Liquidity is confidence," K. Warsh [remarked](#) in March 2007. Repeated episodes of vanishing liquidity in the Treasury market since the March 2020 'dash for cash' suggest that this warning should be taken seriously.

Still cautious with UST duration; but we would flip the view on AI capex fatigue

Who wants to catch the falling knife? At these levels, intermediate maturities (5- to 7-year) are starting to look attractive. USD 5y3m OIS rates stand near 4.75% (left chart below), above our estimates of the neutral rate and even further above that of the Fed (3.20% for the long-run dot). In the near term, expectations of another 100bp of Fed hikes to c. 5% look excessive in the context of very contained unit labour costs. However, we remain cautious on the long end of yield curves: 1/ the surge in real yields creates carry and value but has only matched the ongoing productivity revival (second chart below); 2/ term premia are still well below historical peaks; 3/ 10-year nominal yields are not absurd relative to trend nominal GDP growth. In particular, we fear 10-year TIPS inflation breakeven, at 2.35%, may still be too low given the poor track record and risk of financial repression; we prefer TIPS to nominal Treasuries.

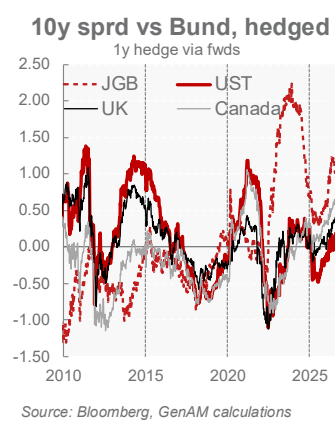
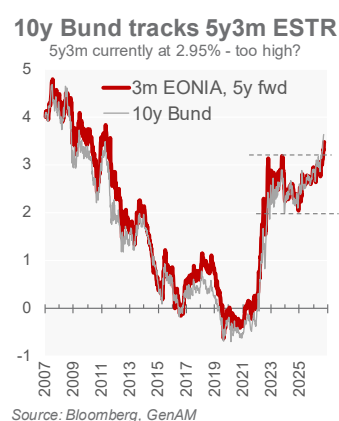
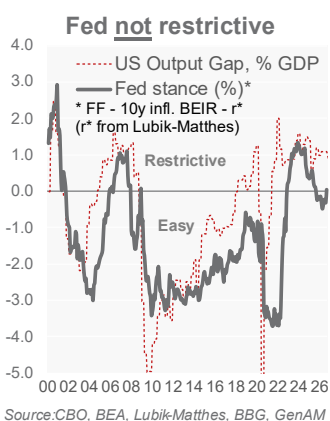


We see value in the belly of the US curve, Steepeners, and TIPS

In all, we thus recommend positioning for curve steepeners for now, e.g. 5-30y, and would only add duration on much better inflation news (e.g. more constructive talks in Iran – still a wild but unlikely card), or a turn in fiscal policy (do not hold your breath, and a Democratic sweep could even cause another drama around the debt ceiling in Spring 2027), or signs of fatigue in the AI capex cycle.

The key risk to the steepening trades lies in more hawkish central banks. The Fed's current target rate at 4.0% is not restrictive, in our books (left chart below). 100bp of rate hikes may indeed well be needed to stop inflation, but they are priced in already and we suspect this Fed – as Warsh waits for a productivity miracle – may still be tolerant of some inflation overshooting (we expect two more hikes, not four).

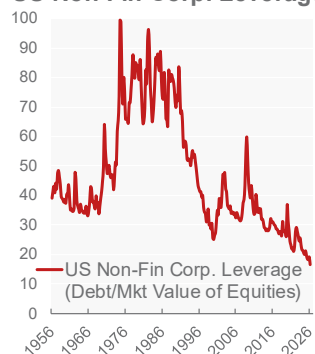
The implied ECB path is also priced aggressively, at nearly +100bp to 3.50% over the coming year. We assume just two more hikes, since the labour market is much less tight than in 2022 (e.g. lower vacancy rate) and wages stay well contained. Forwards are also pricing the ECB rate around 3.50% in 5 years (2nd chart below), some 100bp above often-cited ECB estimates of the neutral rate. This too creates value in the belly of the EUR curve, and supports steepeners. We are more cautious with long EUR rates, given the intense international competition, not least from JGBs (third chart below) and the still muted level of term premia. We keep a defensive stance on French OATs, even with the 10-year spread to Bund at near 120bp. We do not expect political clarity before the result of the general elections (June) that are most likely to follow the presidential election (April-May). Stability will require a majority in parliament, and one that is willing to tackle the chronic public deficits (public debt has increased by 21 points of GDP to 119% since end 2019).



A moderate pro-risk stance, but hedging has rarely made more sense

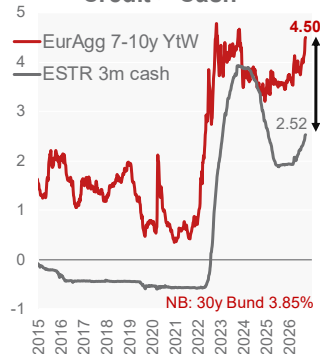
We still like to overweight Corporate Credit, since re-leveraging is starting from an extremely low level (left chart below) and carry ensures ongoing inflows. Yet the FI tremors in September have pushed spreads significantly wider, reminding us that

US Non-Fin Corp. Leverage



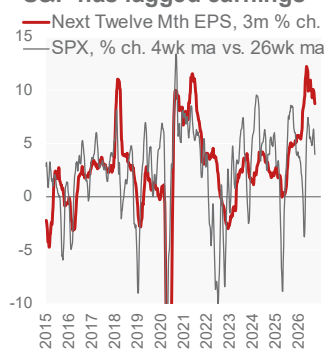
Source: FRED, GenAM

Credit > Cash



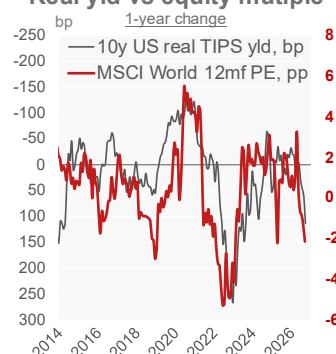
Source: Bloomberg, GenAM

S&P has lagged earnings



Source: Bloomberg, GenAM calculations

Real yld vs equity multiple



Source: MSCI, Bloomberg, GenAM

Buy the dips in Credit,
at least as long as re-
cession risks stay re-
mote

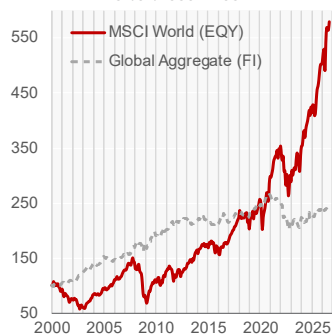
at these tight levels, risks are more symmetrical. We will buy the dips in IG credit as long as recession risks stay remote, yet strains affecting the “risk-free” assets (a qualification that has become increasingly misplaced) – which play a pivotal role in the global financial system – warrant caution. This suggests that implied volatilities in other asset classes – equities, credit and foreign exchange – remain low and cheap.

Small equity over-
weight, but hedge if
you can

We keep our overweight in equities small, as seasonals improve sharply in October and November. Reassuringly, equity prices have significantly lagged the profit boom (third chart above). In other words, equity multiples have derated as real yields surged (top-right chart above). Yet hedging has rarely made more sense, in the context of a somewhat disorderly rise in real yields. The left chart below reminds us that

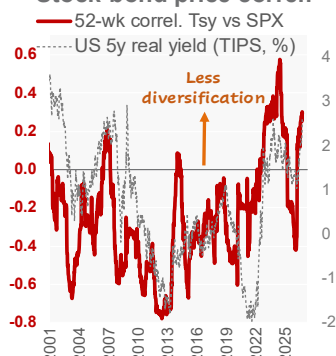
Global stocks & bonds

01/01/2000 = 100



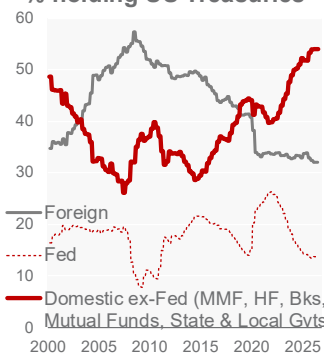
Source: MSCI, Bloomberg, GenAM

Stock-bond price correl.



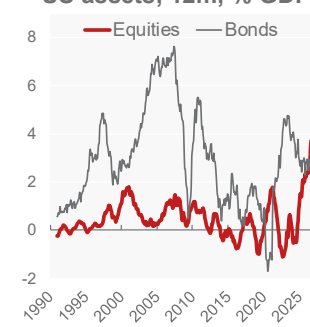
Source: Bloomberg, GenAM calculation

% holding US Treasuries



Source: Fed, bloomberg, GenAM

Net foreign purchases of US assets, 12m, % GDP



Source: US TICSdata, Bloomberg, GenAM

The dollar smile may
get asymmetrical

equities have had a spectacular run over the past 4 years, both outright and relative to Fixed Income. At this higher level of real yields, stock-bond correlation tends to be higher, which exposes balanced portfolios. Chart 3 below highlights the changing structure of Treasury holders. Chart 4 also shows that the US current account deficit is increasingly funded via foreign inflows into US equities, less into bonds. This may imply that, going forward, the US dollar may no longer play the same safe-haven role as it has in the past: the dollar smile may get asymmetrical. For now, Fed hikes and fragile EU politics may keep the EUR/USD on the back foot, but we stay bearish the USD in the medium run, not least vs. EMFX.

MACROECONOMIC OUTLOOK

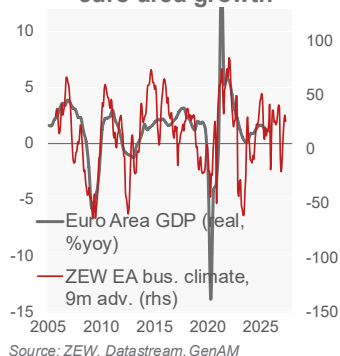
Thomas Hempell, Guillaume Tresca, Martin Wolburg, Paolo Zanghieri

- Global growth is set to defy persistent Gulf tensions and carry its momentum into the autumn.
- US consumption may soften amid soft real wages and a low savings rate, but capex and fiscal support should keep growth firm. The euro area should expand at close to potential with earlier excess savings cushioning the energy-related headwinds to consumption. China's strong exports only partly offset sluggish domestic demand.
- High energy prices will lift euro area headline inflation into the autumn, but core inflation should stay contained with second-round effects very contained. US inflation will ease only slowly and remain well above target.
- We now expect both the ECB and the Fed to deliver two further hikes, with the next moves possible as early as October, amid robust activity and persistent price pressures. Markets' discounting of even two further increases beyond this in 2027 looks exaggerated given still contained risks of 2nd-round effects from the energy price shock.
- The key risks stem from the Middle East. Our base case assumes a lingering but non-escalating conflict that allows energy flows to normalise gradually in 2027.

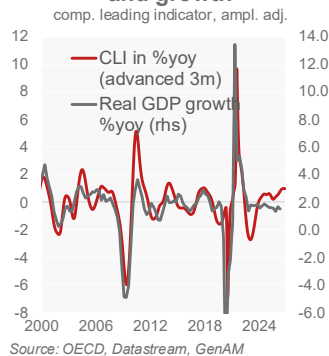
Global activity is likely to prove resilient, with strong AI investment a key support

The global economy has weathered the re-escalation of tensions in the Middle East with striking resilience over the summer. That strength should carry into the autumn even as major central banks embark on mini hiking cycles. The global AI boom keeps underpinning investment in the US and IT shipments worldwide, to the particular benefit of Asian chip exporters. This helps global trade to continue to defy US tariffs and supply-chain frictions. The euro area faces a tougher mix, as high energy-import bills worsen the terms of trade and erode consumers' real incomes. Even so, solid labour markets, Germany's unfolding fiscal stimulus, households' use of excess savings accumulated in previous years and the supportive global backdrop should keep euro area growth close to its potential rate over the coming quarters. In the US, a depressed savings rate and high energy prices will slow consumer demand from its recent strong pace, but ongoing fiscal support and robust investment should keep growth above 2%. China should expand only moderately: weak domestic demand leaves exports as the main growth pillar, limiting the country's contribution to global activity.

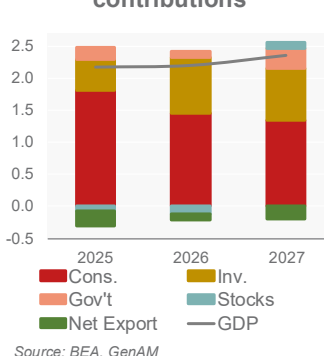
ZEW pointing to sustained euro area growth



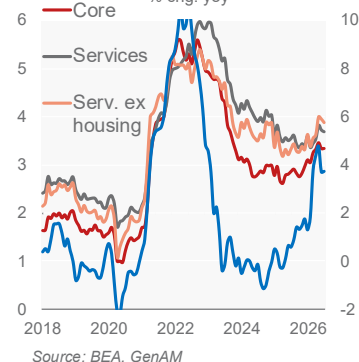
G7: leading indicator and growth



US: GDP growth and contributions



US: PCE inflation



Persistent energy-market jitters will keep headline inflation elevated for longer and push both the Fed and the ECB to deliver two further hikes, potentially starting as soon as October. Yet without second-round effects through accelerating wages or de-

Passthrough from high energy prices will lift headline inflation, but the impact on core inflation is set to prove moderate

AI key driver and main possible fragility of a healthy growth outlook

Fed may be forced to strong tightening if disinflation does not materialize

anchored inflation expectations, the impact on core inflation should stay modest. Monetary tightening in the US and the euro area will therefore fall short of what markets currently price. Mounting evidence of successful reflation and the desire to support a weak yen argue for at least two further hikes also by the BoJ.

We see three key downside risks to this outlook: a further escalation in the Middle East that disrupts energy supply, a sustained sharp rise in bond yields, and disappointment over the returns on AI investment.

US: growth to accelerate, Fed tilts hawkish

US domestic demand remains strong: we forecast GDP growth of 2.2% this year and 2.3% next. AI-related investment is the main engine, but surveys and orders suggest momentum is broadening beyond technology. Consumption is growing at over 2% annualised despite stagnant real incomes, supported by equity wealth gains among affluent households and dissaving. Reliance on AI and equity wealth is the key vulnerability: weaker AI demand could sharply reduce investment and consumption.

The labour market remains stable, with unemployment at 4.1% in August. Yet surveys point to limited job creation. Alongside strong productivity, this suggests relatively job-poor growth, constraining household income and spending.

Inflation is the central risk as the Gulf conflict keeps lingering. Headline CPI inflation accelerated to 3.4% in August, with motor fuel prices up 28%, threatening spillovers into core inflation. Services PCE inflation remained at 3.7% in July, but slower wage growth, strong productivity and softer rents should ease price pressures. Higher fuel and technology-goods prices will partly offset this improvement. We expect core PCE inflation to fall from 3.4% in July to 3.2% by year-end. Methodological changes could reduce the reported rate by up to 0.2pps without altering the underlying trend.

Strong demand and persistent inflation have prompted a hawkish policy shift by the Fed. We expect two more rate rises by the end of the year, with the possibility of another one in Q1/27. The market pricing of a total of 100 bps rise by mid-2027 is not consistent with our view of an economy that will grow healthily without overheating.

November's mid-term elections are likely to produce a divided Congress, with Democrats very likely to take the House by a small majority. This raises the risk of a debt-ceiling confrontation in January 2027. A deal extending healthcare subsidies in exchange for tax cuts remains possible but would weaken the fiscal outlook further. We expect the deficit to end 2026 at around 6% of GDP.

Euro area: Growth holds up, but energy forces the ECB's hand

Euro area growth is proving more resilient than feared even as an energy-driven inflation spike complicates the picture. Q2 2026 GDP growth was revised up to 0.6% q/q, though ex Irish volatility it held closer to ~¼% q/q, with Q3 surveys even pointing to a stronger momentum. The upswing is broadening: manufacturing PMI hit a four-year high in August/September while the services PMI pared the losses made in the first half of the year, and employment rose 0.1% q/q in Q2.

Domestic drivers should sustain this: stronger loan growth, a resilient labour market (unemployment at 6.4%), ample excess savings, and German fiscal spending are key drivers. Higher energy prices dampen real incomes, and policy uncertainty — from the Strait of Hormuz to domestic politics — weighs on confidence but without derailing the expansion. We lift our 2026 growth forecast to 1.0% (from 0.8%) and keep 1.2% for 2027; risks are roughly balanced.

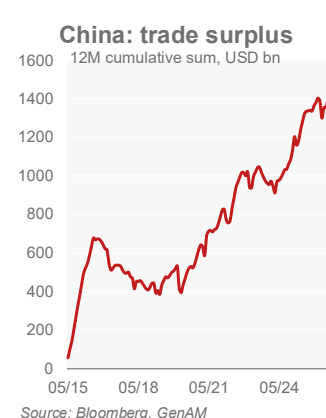
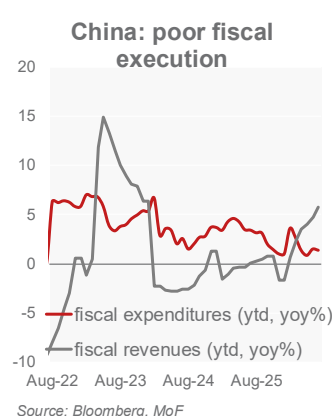
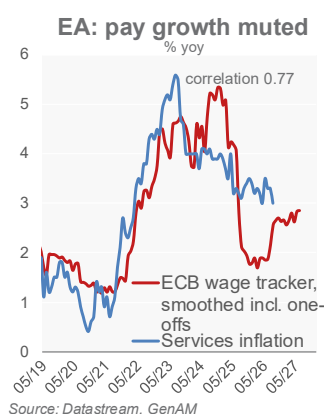
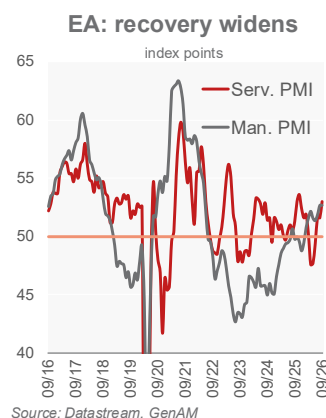
Resilient EA growth weathers energy price spike

Upside risks to inflation
but no signs for second-round effects yet

Inflation has re-accelerated: August HICP jumped to 3.2% y/y from 2.9% on energy (+0.37pp), while softer services (3.0% y/y) pulled core to 2.4% y/y. Energy is the clearest upside risk, with gas prices up ~130% y/y in September. Pipeline pressures — PPI (+5.8% y/y), import prices (+3.9%) and commodities (+37%) — point to firmer upstream costs. Wage growth stays moderate, but the longer the spike, the larger the risk of second-round effects. We keep 2026 inflation at 2.9% and lift 2027 to 2.4% (from 2.3%), risks skewed up.

Hawkish ECB is not yet done, 3.0% by Q1/2027 likely

The ECB has responded, unanimously raising the key rate by 25 bp to 2.50% in September, citing Middle East tensions as the main driver. Staff lifted the 2026-27 inflation path by a cumulative 0.4pp (core: +0.2pp) and GDP growth by 0.3pp. President Lagarde struck a hawkish tone, warning inflation will stay "well above target for an extended period" with risks "to the upside." We see two further hikes to 3.0%, expecting moves in December and March, with the risk of earlier or stronger tightening.



China: the slowdown of a K-shaped economy

China's economy has continued to lose momentum, with weak domestic demand contrasting with resilient exports and a strong tech sector. The latest data were disappointing across the board. Investment weakened, and retail sales remained subdued, while PMIs eventually edged higher. Inflation has also started to soften again. This increasingly K-shaped picture puts the 4.5% growth target at risk.

Policymakers have become somewhat more supportive, but there is still little appetite for a large stimulus package. The priority is to speed up fiscal spending and make better use of local government bond proceeds. Fiscal room remains available, so further measures could follow if the data weaken, although support is likely to remain modest.

The property sector continues to weigh heavily on household confidence and consumption. New announced housing measures may help, but they will not be enough on their own. A more lasting recovery requires a stabilisation of the housing market and a stronger social safety net. On a different front, the trade truce with the US remains fragile, albeit the peak of tensions is likely behind us. The gradual decoupling of the two economies is likely to continue, with further sporadic tensions along the way.

Pragmatic policymakers but not in rush to provide a big stimulus

GOVERNMENT BONDS

Florian Späte

- **Government bond yields should remain under pressure as hawkish central banks, resilient US and euro area growth, and underpriced energy-driven inflation risks constrain any rally, although stretched valuations leave room for a temporary correction.**
- **Markets price an excessively restrictive Fed and ECB path, but falling rate expectations may not lower long yields: heavy issuance, fiscal uncertainty, and price-sensitive private buyers should instead rebuild term premia.**
- **Euro area non-core spreads are likely to remain broadly range bound as resilient demand and advanced issuance cushion volatility. OATs remain the exception: France's fiscal outlook and the 2027 election should sustain a political premium and drive moderate medium-term widening.**

Near term, yields should remain under pressure. Hawkish central banks, resilient activity, and heavy sovereign issuance continue to test demand for duration, while sticky inflation and volatile energy prices limit the scope for policy easing. The Fed and ECB still need convincing evidence that inflation is returning sustainably to target, and firm US demand, resilient labour markets and improving euro area activity give them little reason to turn dovish. Stronger nominal growth therefore remains a headwind for bonds.

Market pricing nevertheless looks too hawkish. The rise in 10-year yields has reflected a sharp repricing of expected policy rates rather than duration risk. As inflation gradually recedes, part of this component should unwind. After the speed of the recent sell-off, stretched valuations could amplify a short-covering rally. We would therefore not chase the move at current levels, even though our directional view remains bearish on duration.

Our baseline is a limited tactical correction rather than a lasting rally. A material fall in oil and gas prices – most plausibly after durable progress towards resolving the Middle East conflict – would lower headline inflation and rate expectations, pushing yields temporarily lower. Softer economic surprises could reinforce the move. However, energy-driven inflation risks remain underpriced: disruptions around the Strait of Hormuz, AI-related energy demand and geopolitical or weather-related food-price shocks could quickly revive inflation compensation and cap any rally.

Even after a setback, yields should remain high over the short-term horizon. We forecast 10-year Bund yields at 3.65% in 3 months and 3.70% in 12 months, and 10-year US Treasury yields at 5.25% and 5.35%, respectively. The asymmetry matters for investors: weaker data or lower oil prices may create tactical opportunities, but persistent inflation and policy caution should limit gains. We therefore maintain a cautious duration stance.

Medium term, a higher-yield regime should prevail. Fiscal risks, sticky inflation, heavier public and private funding needs, and a less supportive buyer base have pushed yields to multi-year highs. Ageing populations, rearmament and the climate transition will keep spending and issuance elevated, while AI, infrastructure and energy investment compete for the same pool of savings. This is a normalisation towards a higher equilibrium yield, not a cyclical overshoot.

Stretched valuations leave room for a tactical rally

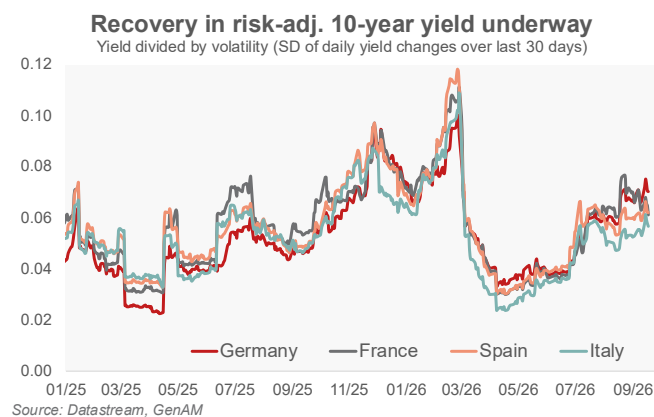
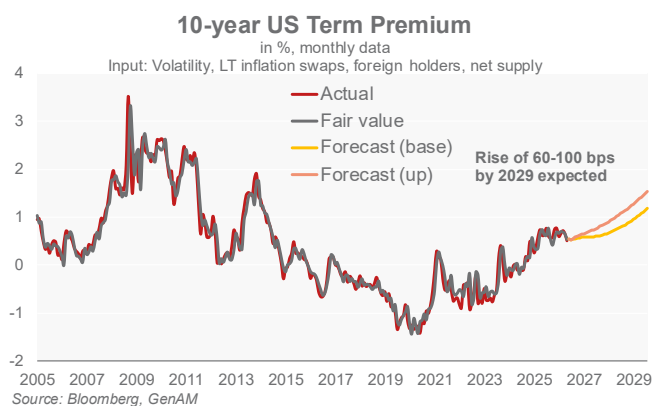
Term premia, not policy expectations, drive the next leg

The neutral rate is also likely to rise for both favourable and adverse reasons. AI-related productivity gains could support stronger sustainable growth, while larger bond supply, more volatile inflation and reduced monetary-policy effectiveness would raise required rates. Treasury and Fed strategies appear inconsistent, adding uncertainty: a shift towards shorter-dated Treasury issuance would flatten the curve and make debt-service costs more sensitive to policy rates, reinforcing fiscal-dominance concerns, while the Fed's plan to shorten the maturity of its bond holdings would tend to steepen the curve. The implication is clear: tactical rallies remain possible, but structurally higher term premia should keep yields under pressure and favour selective, cautious duration exposure.

Term premia should drive the next leg. Markets may be pricing an excessively restrictive path for policy rates, but any decline in expectations should be more than offset by investors demanding greater compensation for duration, inflation and fiscal uncertainty. In the US, we expect the 10-year term premium to rise by about 60-100 bps over the next three years. Heavy Treasury supply, weak auctions and potentially inconsistent Fed and Treasury strategies strengthen this case.

The end of QE reinforces this shift. As central banks step back, price-sensitive non-bank investors increasingly set the clearing price and demand more compensation. More attractive JGB yields may also reverse part of the long-standing carry trade, reducing Japanese demand for overseas bonds. At the same time, the convenience yield attached to liquid government debt continues to erode. Together, these forces leave both US Treasuries and Bunds exposed to higher term premia.

Post-QE investors demand more compensation



Non-core spreads resilient, but OAT risks persist

Euro area non-core spreads should remain broadly range bound. EGBs underperformed moderately in Q3 as policy-rate expectations, gas prices, sovereign debt concerns and political uncertainty increased, but core and non-core yields rose broadly in parallel. This points to a global duration sell-off rather than renewed fragmentation. Resilient demand and well-advanced issuance should cushion episodic volatility, while the short end offers better protection as capital-market conditions become more challenging. OATs remain the main exception. Although valuations look attractive after years of underperformance, France's fiscal trajectory, rising debt and the 2027 election justify a persistent political premium. In our baseline, limited political progress should drive moderate medium-term OAT/Bund widening; sharper fiscal or political deterioration is the key downside risk.

OAT political risks limit spread compression

CREDIT

Elisa Belgacem

- European credit markets have weathered the recent rise in rates, geopolitical uncertainty and higher energy prices with remarkable resilience. Although spreads have retraced from their summer tights and now trade at their widest levels since April, the move remains modest relative to the sharp widening in sovereign risk premia, underlining the limited transmission from government bond volatility into corporate credit.
- We remain constructive on both IG and HY. Elevated all-in yields continue to underpin investor demand, leaving carry as the primary source of returns relative to government bonds, particularly in an environment where spread beta remains subdued and default risk contained.
- With senior IG increasingly acting as a duration-sensitive asset class, we maintain our current sector allocation, preserving our overweight in Financials, our preference for defensive sectors and our use of subordinated financial indices as the most effective hedge against downside scenarios.

Higher rates have pushed credit spreads wider, but the move remains orderly and modest compared with the volatility observed in sovereign debt markets.

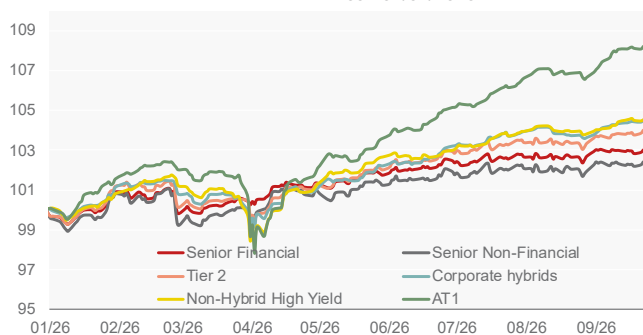
Despite a sharp repricing in government bond markets, European credit has remained remarkably resilient. While spreads have moved off their tights and now stand at their widest levels since April, the widening has been modest relative to the increase in sovereign risk premia, highlighting limited spillover from higher rates into corporate credit. Elevated all-in yields continue to attract yield-sensitive investors, helping absorb bouts of macro volatility and keeping primary and secondary market demand broadly intact.

Resisting Rates Volatility

That said, higher rates have started to weigh on spread valuations, particularly in longer-duration segments of IG, where performance has become increasingly driven by interest-rate sensitivity. However, strong corporate fundamentals, conservative balance sheets and still-benign default expectations continue to underpin market confidence. Unlike previous periods of rate-driven volatility, there has been little evidence of broad de-risking or sustained outflows from credit markets.

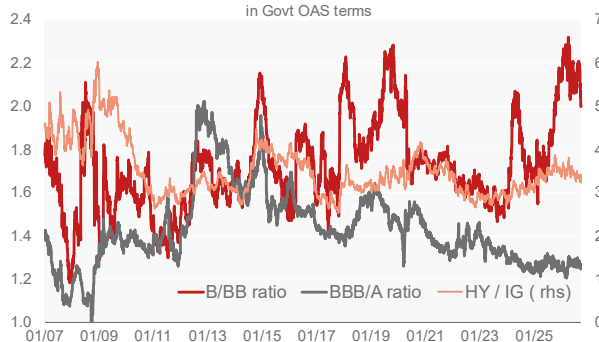
Year-to-date, European credit has largely outperformed sovereign markets on a risk-adjusted basis, with corporate spreads proving far less reactive than government bond yields. The recent divergence has been particularly visible in France, where corporate credit has remained well supported despite a renewed widening in OAT-Bund spreads.

EUR Credit market performance by segment
Total return base 100 : 01/01/2026



Source: Bbg, BofAML indices, GenAM

EUR IG vs HY valuation ratios
in Govt OAS terms



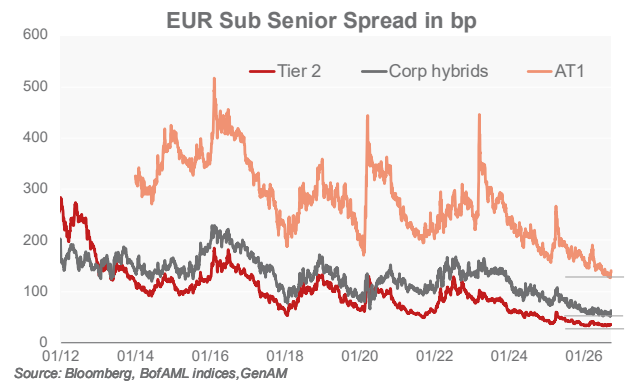
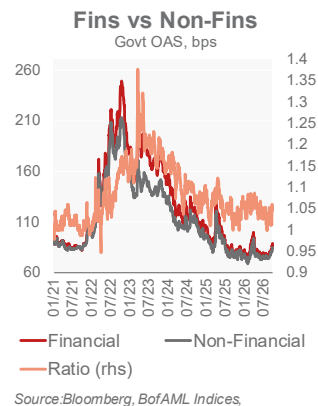
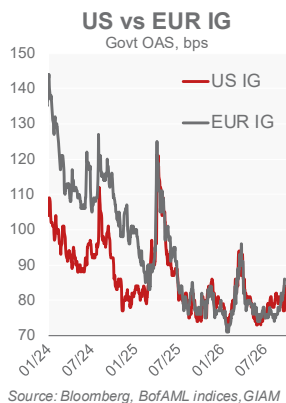
Source: Source: Bloomberg, BofAML Indices, GenAM own calculations

Digesting the AI Debt Boom

The unprecedented wave of technology issuance linked to AI investment remains one of the key challenges facing credit markets. After hundreds of billions of dollars of new supply since early 2025, investors are rightly questioning how much additional borrowing hyperscalers can absorb before valuations come under greater pressure. The sheer scale of funding needs is reshaping the IG universe, increasing technology's weight in benchmark indices and creating a persistent source of supply for the market to digest.

Support from elevated all-in yields while credit shows remarkable ability to absorb high issuance

That said, we believe the challenge remains manageable. Demand for high-quality corporate credit continues to be supported by elevated all-in yields, while the credit profiles of the major technology issuers remain among the strongest in the investment-grade universe. The market has so far demonstrated a remarkable ability to absorb record issuance volumes, aided by broad investor participation, diversified funding strategies across currencies and maturities, and the global nature of the buyer base. While hyperscaler CDS have widened and valuations leave less room for disappointment than a year ago, we view this as a normal adjustment to a structurally larger asset class rather than a sign of deteriorating market access. As long as AI-related capex continues to support earnings growth and investor demand for quality carry remains intact, technology supply should act as a valuation headwind rather than a source of systemic stress for credit markets.



Harvesting Carry in a Mature Tightening Cycle

Our base case remains a yield-buyer-led regime, with scope for modest further spread tightening and no need for a broad defensive stance.

We expect credit spreads to grind tighter over the coming months, although the scope for further compression is more limited than earlier in the year. Positioning therefore remains selective rather than defensive, favouring segments that offer stronger resilience and more attractive carry characteristics. We maintain our overweight in Financials, where balance sheets remain exceptionally robust and earnings continue to benefit from a higher-for-longer rate environment. That said, our constructive view is conditional on sovereign stress remaining contained. Banks remain the closest proxy to sovereign risk within credit markets, and a more acute rates or sovereign crisis would warrant a reassessment of our positioning.

EM SOVEREIGN BONDS

Guillaume Tresca

- The EM macroeconomic environment has remained supportive so far with solid business sentiment, a stabilisation of inflation and proactive EM central banks.
- EM fixed income has been resilient but tight valuations and the risk of further Fed tightening call for greater selectivity. Carry should remain the main return driver, rather than a broad compression in risk premia.
- Local debt still offers the best risk reward with better valuations and less duration exposure. In external debt, we remain cautious on the longest-duration IG names and focus on BBs with solid idiosyncratic stories.

A more selective carry environment. EM fixed income continues to show resilience despite geopolitical tensions and the rise in global long-term yields. The conflict in the Middle East has had a limited macroeconomic impact so far. Inflation has barely accelerated, business sentiment remains solid and the credit-rating trajectory continues to improve. At the same time, the rise in long-term yields has not materially affected EM assets, with external debt spreads remaining resilient.

Stronger fundamentals provide a buffer against higher yields. The relationship between external debt spreads and long-term US yields has weakened, as higher real yields are not necessarily negative for EM assets when global growth remains resilient. Improving policy credibility and healthier macroeconomic fundamentals have also changed investors' perception of EM risk. In contrast with previous periods of rising US yields, a broadly stable US dollar has given EM central banks more room to manage domestic conditions and has prevented the dollar from acting as a major shock amplifier. Technical factors also remain supportive. EM net supply is still contained, and fund inflows have proved resilient, providing an important anchor in a more volatile global environment.

Overall, we maintain a positive view supported by resilient growth, high real yields and improving credit fundamentals. Tight valuations and the risk of further Fed tightening call for greater selectivity. Carry should remain the main return driver, rather than a broad compression in risk premia.

EM local debt: the best risk-reward

Maintain our preference for local debt. EM local debt continues to offer a better risk-reward than external debt. Valuations are more attractive, carry remains high and the lower duration effect makes the segment less vulnerable to a further rise in long-term US yields. The combination of high real rates, a stable US dollar and resilient global growth should continue to provide a favourable backdrop, even if a more volatile environment requires a selective approach.

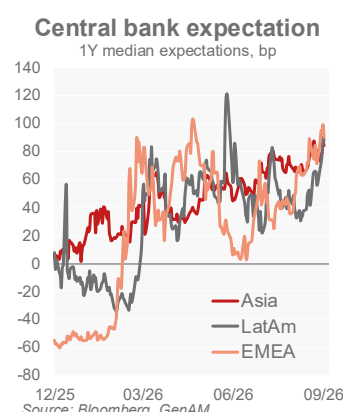
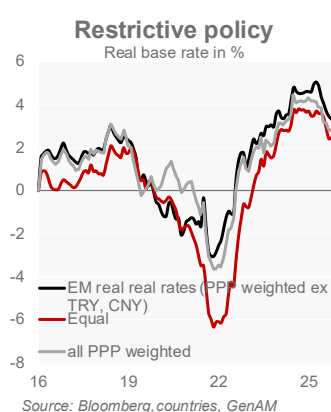
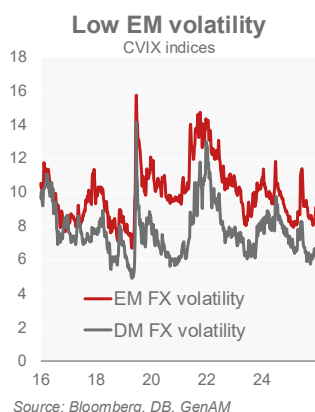
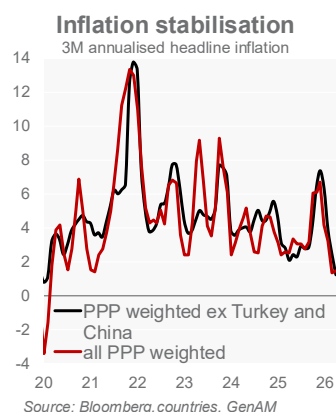
Favour FX and the belly of local curves. We maintain our preference for EM FX over rates. Currency volatility remains low, real rates are still high, and the stability of the US dollar supports carry strategies. We continue to favour high yielders (the BRL, TRY) but prefer to use a wider basket of funding currencies to reduce the exposure to individual risks. Asian currencies (the KRW, TWD) still have room to perform and should also benefit from a stronger JPY and CNH. By contrast, we avoid the ZAR

We remain neutral on EM rates. Valuations have become more attractive, but upside risks to yields remain significant. EM rates continue to act as the main adjustment valve when inflation or monetary policy expectations change, while the possibility of

Resilience so far but
limited room for spread
tightening

Better valuations in EM
local debt

further rate hikes limits the case for a broad duration position. Selective receiver positions nevertheless look attractive in Brazil, South Africa and Hungary where the euro-area convergence story provides an additional idiosyncratic catalyst. More broadly, we prefer the belly of local curves, where the balance between carry and duration risk appears more favourable

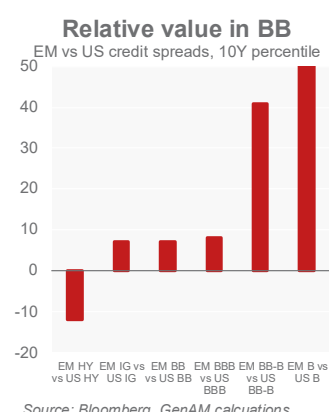
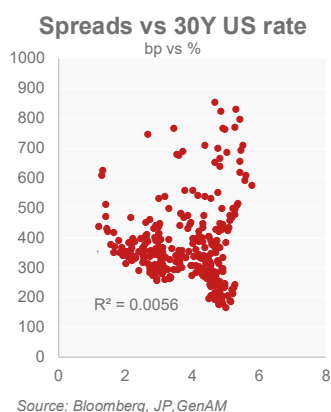
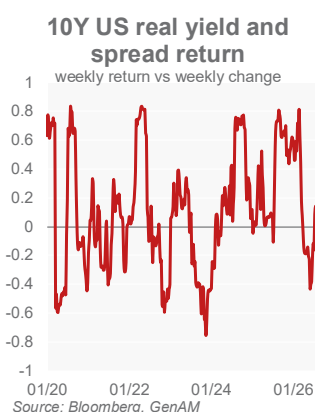
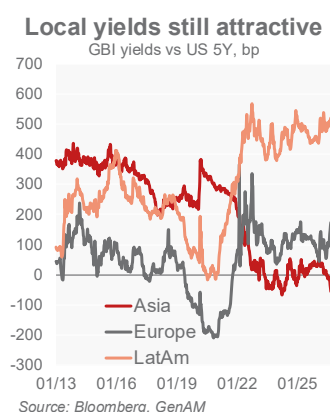


EM external debt: carry remains in the driving seat

Positive stance but increasingly selective. We retain a positive view on external debt, supported by the long-lasting improvement in macroeconomic fundamentals, stronger institutions and favourable technical factors. Spreads have remained resilient despite geopolitical tensions and the rise in global yields. However, spreads are tight and offer limited scope for a further broad-based compression.

Duration risk also deserves close attention, especially among highly rated IG issuers where spreads are tight and the sensitivity to US Treasury yields is high. The increase in issuance may temporarily weigh on the asset class, although resilient fund inflows and contained net supply should limit the impact. We therefore continue to favour HY over IG but see this as a selective preference rather than a broad beta call.

BB sovereigns offer a more attractive combination of carry, spread buffer and lower duration. They also benefit from a more supportive rating trajectory and provide a larger pickup over US credit than higher-rated EM issuers. We focus on idiosyncratic stories where domestic political can support performance (the Western Balkans, Mexico and Ivory Coast)..



Limited external debt spread tightening. Focus on BBs

CURRENCIES

Thomas Hempell

- The USD should hold near term but soften over 2027 as policy uncertainty and twin deficits outweigh residual yield and AI equity support.
- Euro area economic resilience and resuming portfolio inflows are boding well for the EUR. Yet Middle East risks as well as European political and fiscal uncertainties should cap the move.
- The JPY has likely reached a medium-term turning point. Future gains depend on the BoJ, though. The central bank must meet already-high tightening expectations, so expect a bumpy, two-sided ride near term.
- A pro-cyclical backdrop still rewards selective carry. We prefer GBP over CHF, which is set to become the funding currency of choice as JPY carry trades lose appeal.

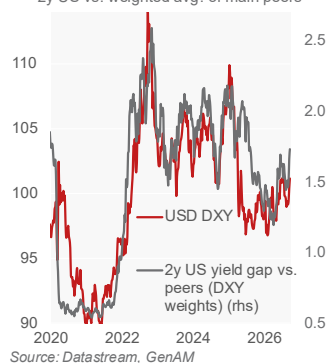
The USD outlook is balanced short term, but we expect it to trend lower in the medium term. The USD has benefitted as markets repriced future Fed rate hikes, rewidening the yield gap (left chart). Attractive US real yields and US equity outperformance, amplified by the AI boom, still draw capital and support the USD for now.

Structural pressures on the USD keep building

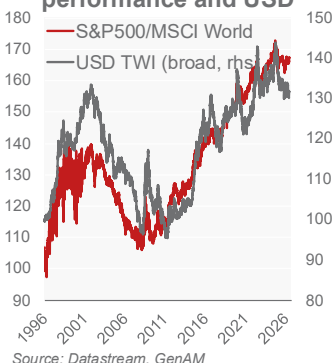
Beyond the near term, the balance tilts against the dollar, though. Solid global growth outside the US, firm risk sentiment and fading US economic surprises vs. main peers are headwinds for the anticyclical USD (chart 3). Meanwhile, persistently high US fiscal and current account deficits require strong capital inflows while foreign investors need to be compensated for higher US policy uncertainty. AI-related equity demand fills this gap for now, with volatile equity inflows overtaking steadier bond

USD likely to prove steady near term, but structural drags to play out over the medium term

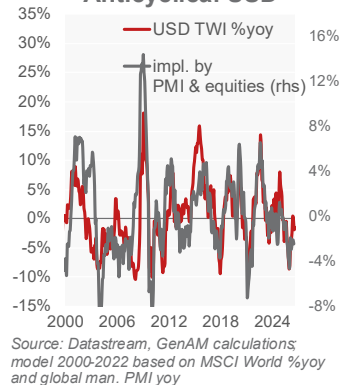
DXY and yield gap
2y US vs. weighted avg. of main peers



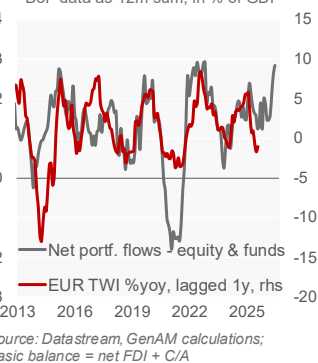
Relative US equity performance and USD



Anticyclical USD



Equity inflows and EUR
BoP data as 12m sum, in % of GDP



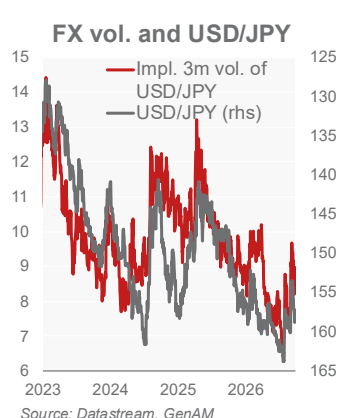
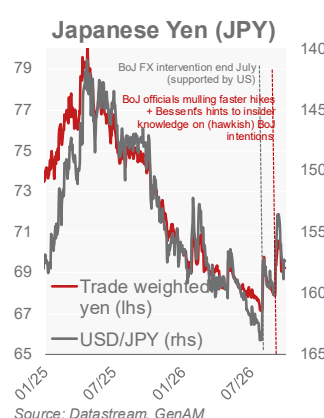
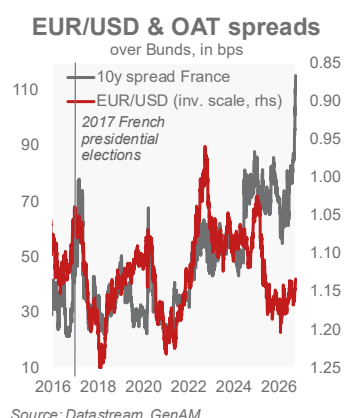
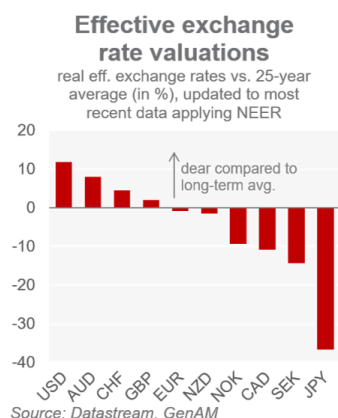
inflows over the past 12 months. This leaves US external financing and the exchange rate more vulnerable to setbacks once the AI bonanza eases. As the Treasury attempts to manage long-dated yields, including via increased buybacks usually earmarked for smoothing market liquidity, adjustment pressure may shift from bond prices to FX as lower yields give foreign buyers less compensation. Overall, we retain a mildly bearish medium-term view on the US dollar.

EUR 's upside capped by Middle East risks alongside fiscal and political worries

The EUR has upside, but with limits. It has absorbed this year's energy and terms-of-trade shock well. Euro area economic resilience has mitigated the EUR's sensitivity to energy prices and propelled equity inflows into the region – usually a reliable leading indicator for EUR strength (right chart above). Fair valuations (incl. for the REER

EUR/USD range-bound near term, some upside further out

vs. long-term average, left chart below) leave room for moderate gains against the still-expensive USD. That said, Middle East tensions seem set to linger for longer than we previously assumed, denting the odds of any strong EUR/USD bounce near term. French and Italian fiscal politics also weigh ahead of pivotal 2027 elections, with fiscal challenges ranking high among investors' concerns. The EUR today is much less exposed to sovereign debt worries than during the euro debt crisis as the ECB's [TPI](#) helps to contain spillovers from idiosyncratic sovereign stress. Indeed, the sharp increase in OAT/Bund spreads has failed to significantly impact the EUR thus far (2nd chart below). Still, a French president from the political extreme and a fragmented parliament could pose a sizeable threat to the euro area if they were to challenge the EU's fiscal limits or the superiority of EU law over national law. We see EUR/USD edging up only to 1.15 by year-end and to 1.18 over twelve months.



JPY at inflection point, but not a one-way trade for now

The JPY has reached an inflection point, but it is not yet a one-way trade. The medium-term case for a materially stronger yen is compelling. The JPY is deeply undervalued (left chart again), and Japan has left its protracted deflation behind. The BoJ's accelerated hiking cycle, backed by FX intervention, should help the yen recoup part of its steep slide since 2025 (3rd chart). The recovery may also become in part self-reinforcing: larger moves and higher yen volatility erode the appeal of JPY-funded carry trades, and their unwinding in turn supports the yen (right chart). Still, as we cautioned [earlier](#), we would avoid rushing into JPY exposure. With global risk sentiment still solid, carry trades are unlikely to unwind abruptly. Despite BoJ hikes, long JPY positions still imply a negative carry, including for euro area investors. Nor should investors write off the EUR or the USD prematurely (see above). Markets already price an ambitious BoJ path, as the yen's slide after the September rate hike vividly showed. Internal dissent and sluggish growth may force the BoJ onto a more gradual path. We therefore expect a slower and more volatile JPY recovery, which favours building exposure gradually on setbacks rather than chasing rallies.

We remain cautious on the CHF. The SNB is reluctant to hike amid low price pressures, even as further ECB hikes loom, which widens the rate gap against the franc. And as the risk of a JPY rebound rises, investors may increasingly turn to the CHF as a funding currency for carry trades. Elevated risks ahead of the 2027 French elections should, however, cap EUR/CHF upside. We have turned more constructive on the GBP, mainly for its attractive carry, although we do not expect large moves in EUR/GBP spot. In a still pro-cyclical environment, this makes the GBP the preferred leg for carry-seeking investors.

Yen offering value, but expect higher near-term volatility

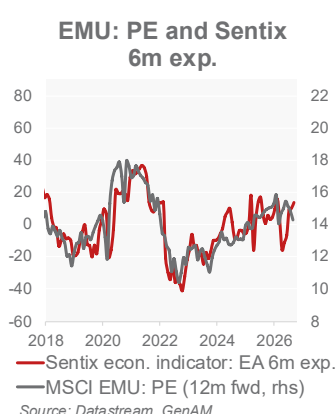
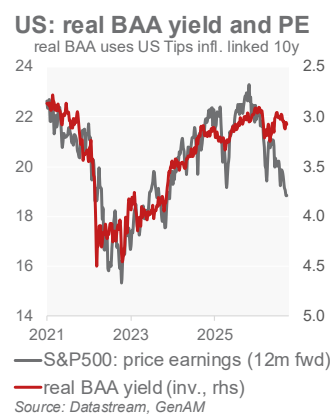
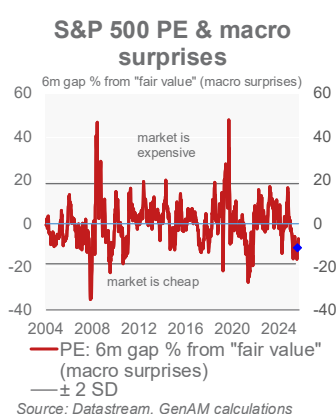
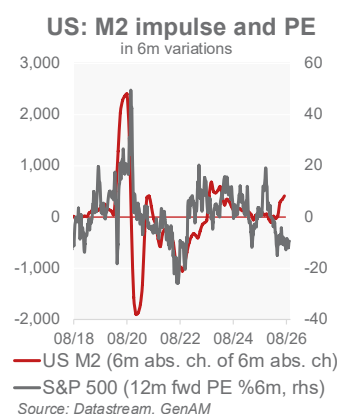
EQUITIES

Michele Morganti and Vladimir Oleinikov

- We retain a cautious overweight in equities. Resilient growth, still benign financial conditions, healthy corporate balance sheets and our Machine-Learning signals (favouring equities over government bonds) mitigate headwinds from higher real yields, geopolitical risks and a more demanding valuation backdrop.
- Earnings (EPS) remain the main support. US NIPA profits surged 23% yoy in Q2 and margins are close to record highs. US EPS should stay healthy in the next quarters, while EMU momentum is still building and is expected to peak later.
- We stay neutral EMU versus the US and US Technology, while diversifying within the US towards mid-caps, the S&P 493 and Gold stocks. We OW EM equities and Japan; within EM, we favour Korea, tactically Indonesia, and hold slight overweights in China and Chinese IT. We maintain an EU sector cyclical tilt.
- Our 12-month total-return forecasts are 9% for the S&P 500 and 11% for EMU, with upside to nearly 20% if ambitious consensus earnings are met. The main risks are lingering energy inflation, a further rise in real yields that tightens financial conditions, and weaker returns on AI investment.

Equity backdrop constructive amid resilient global growth and strong earnings

The equity backdrop remains constructive, but higher yields and geopolitical risks warrant only a measured OW stance. Global growth is resilient: US activity benefits from AI-led capex and fiscal spending, while the euro area continues to expand close to potential. Benign financial conditions, stable credit spreads, healthy net cash flows, moderate leverage, buybacks and M&A support equities over government bonds. Yet, the bond sell-off also reflects structurally heavier public and private funding needs, pointing to a higher-yield regime that limits multiple expansion and favours country diversification.



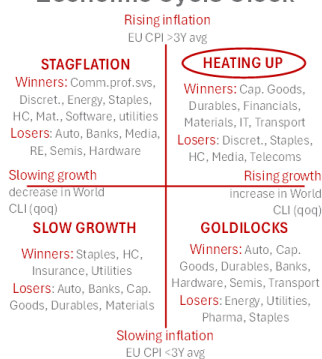
Earnings are doing the heavy lifting. US Q2 NIPA profits from all US corporates rose 23% yoy as margins approached record highs. S&P 500 EPS lag NIPA profits, and our models expect EPS growth to remain above 10% yoy through much of 2027: we forecast US EPS growth of 33% in 2026 and 10% in 2027. EMU is running roughly two quarters behind the SPX, supported by resilient confidence indicators and bank loan growth, plus easing headwinds from wage growth and trade-weighted euro

momentum; we expect EMU EPS growth of 21.5% in 2026 and 9% in 2027. Our 2027 forecasts are around 4% below consensus for both US and EMU indices.

Valuations differ by horizon. US equities remain expensive on long-run CAPE measures (cyclically-adjusted PE), but shorter-term multiples look more reasonable relative to macro surprises, margins and credit spreads. Our 12-month S&P 500 target is 8,220, equivalent to a 9% total return (TR); the cautious case is 7,500, while consensus EPS would imply about 8,800. EMU offers an 11% expected TR and lower valuations, but higher beta, energy sensitivity, political risk and a smaller Tech weight justify a neutral EMU-versus-US stance. If consensus EPS forecasts materialize, both US and EMU equities could have upside potential of 20%. For equities, a spike in real yields remains the main near-term risk to valuations, as it tightens financial conditions rather than reflecting stronger medium-term productivity growth.

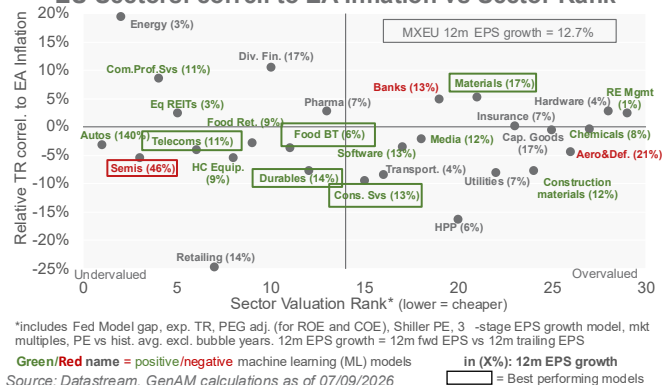
European sectors as of 22/09/26	Total Return from 25/2/26 (%)	12m fwd EPS ch. from 25/2/26 (%)	Q1 EPS surprise (%)	Q2 EPS surprise (not done) (%)
Energy	27.3	63.5	13.9	8.7
Software	22.9	9.3	5.4	-2.6
Semiconductors	19.4	61.8	5.2	8.8
Banks	18.5	15.5	3.7	3.8
Cons. Services	11.8	-0.8	-3.0	-3.4
MSCI Europe	3.5	14.2	5.7	4.6
Metals & Mining	0.1	19.9	34.0	-6.3
Capital Goods	-1.6	12.9	-5.7	8.5
KG: A&D	-3.5	17.3	2.4	12.7
Utilities	-4.1	9.6	3.4	15.3
Pharma	-4.4	5.8	8.2	7.7
Food	-7.0	5.9	8.0	6.4
Telecom	-11.3	9.9	30.0	-1.3
Auto	-13.7	-9.6	-7.6	-21.6
Cons. Durables	-16.3	4.1	6.7	-1.9
Mat. Constr. Mat.	-17.3	15.2	-51.0	1.8
RE Mgmt & Dev	-25.2	-7.0	6.4	-10.9

Economic Cycle Clock



Source: GenAM

EU Sectors: correl. to EA Inflation vs Sector Rank



Diversification remains central, EM equities offering attractive valuations

Diversification remains central. Within the US, we are neutral Technology and broaden exposure towards Russell Mid Cap and the S&P 493. Solid EPS delivery and newly attractive relative valuations support Technology, but hyperscalers' free cash flow is being squeezed by heavy capex and may not recover until 2028. The outlook is much more promising for the broader group of 23 large-cap IT stocks. We prefer AI beneficiaries using technology to raise productivity. We remain OW EM equities: stronger EPS growth, attractive valuations, a softer medium-term dollar, reforms and buybacks. OW Korea and Indonesia tactically. We are also slight OW on China and Chinese IT. After a 36% year-to-date gain, we see less scope for further re-rating in Poland and move to Neutral. We also remain overweight Japan: still attractive valuations, lower political risk, good momentum in buybacks and fiscal expansion.

In Europe, the "Heating up" cycle (decent growth with rising inflation) phase still favours a cyclical tilt, but energy-related headwinds warrant caution. We OW Financials, Pharmaceuticals, Capital Goods, Materials and Semiconductors; UW Staples, Real Estate and Hardware; and we closed our UW on Energy (to Neutral) as an inflation hedge. We complement this allocation with exposure to Gold as well as a Uranium and Nuclear basket, which provide diversification beyond mainstream cyclicals while benefiting from structural investment in electrification and rising power demand.

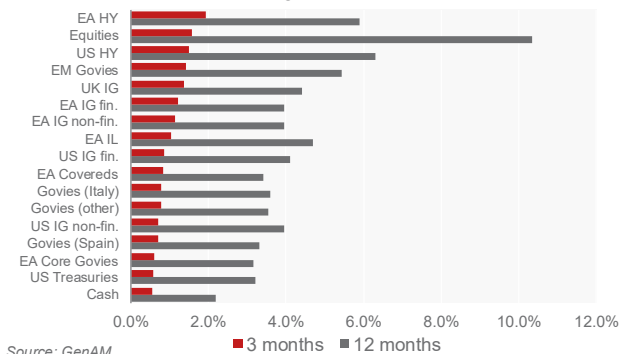
ASSET ALLOCATION

Thorsten Runde

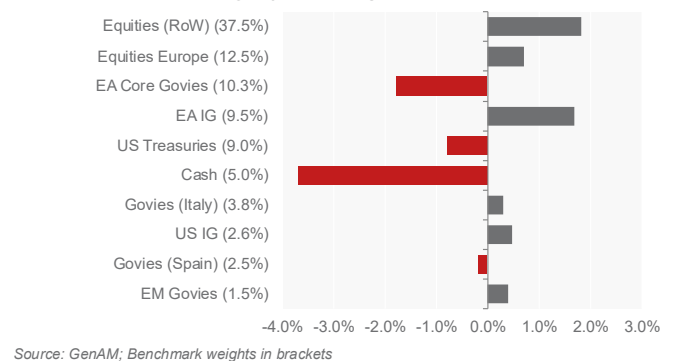
- Global growth should remain resilient into the turn of the year. Strong capex and fiscal support should keep US activity firm, while the euro area is likely to expand close to potential despite high energy prices. In China, sluggish domestic demand will continue to weigh on growth, with export strength providing only a partial offset.
- Energy prices are likely to lift euro area headline inflation, while core inflation should be less affected absent second-round effects; US disinflation should remain slow. The ECB and Fed are likely to hike rates by another 50bp each, although this is still less than priced by markets. A lasting Middle East settlement could lower yields, whereas a deeper bond sell-off, an AI downturn and private-credit strains remain the main downside risks.
- Against this backdrop, we maintain a moderate pro-risk tilt. We overweight Credit across IG and HY, Equities and EM local debt, funded by underweights in Cash and Government bonds. At the same time, lingering fiscal and inflation concerns warrant a mildly short duration position, particularly in US fixed income. We expect the dollar to remain broadly steady in the near term before softening later.

Strong earnings momentum and still moderate risk positioning should provide a supportive environment for risk assets. In fixed income, any correction of very aggressive policy rate expectations is likely to be offset by rising term premia, keeping yields elevated and reinforcing our preference for inflation-linked bonds. Meanwhile, doubts about the risk-free status of Govies should help keep credit risk premia compressed, making carry the dominant return driver.

Aggregated Total Return Forecasts
hedged into EUR



Modelportfolio: Active Positions
TOP 10 Benchmark Constituents



Credit should remain well supported, although compressed risk premia leave elevated carry, backed by contained defaults, as the principal source of returns. Better technicals and valuations favour euro area over US credit, while Financials stand out for their cyclical resilience, limited exposure to private credit risk and spreads that appear wide relative to their ratings. In rates, we favour a steepening bias in the euro area, remain cautious on French debt, and expect euro area spreads to stay range-bound; fiscal and inflation concerns leave us more defensively positioned in US duration. Our equity exposure has a cyclical tilt, is balanced across regions and extends beyond the largest technology names, with emerging markets and Japan benefiting from stronger earnings growth and more attractive valuations. Thematically, we favour AI productivity, gold miners, and uranium. Near-term dollar stability should give way to weakness further out, as policy uncertainty and the persistent twin deficit weigh structurally, while the AI boom and the yield gap lend support for now.

FORECASTS

Macro Data

Growth	2025	2026		2027		2028
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	forecast
US	2.1	2.2	0.0	2.3	0.1	2.1
Euro area	1.3	1.0	0.3	1.2	- 0.0	1.4
Germany	0.3	0.9	0.1	1.3	0.2	1.2
France	0.9	0.5	- 0.0	0.8	- 0.1	1.4
Italy	0.7	0.7	0.0	0.6	- 0.1	0.5
Non-EMU	1.6	1.0	- 0.3	1.3	0.1	1.7
UK	1.3	0.6	- 0.4	1.1	0.1	1.6
Switzerland	1.6	1.1	0.0	1.3	0.0	1.8
Japan	1.2	0.5	- 0.2	0.7	- 0.2	0.6
Asia ex Japan	5.5	4.9	- 0.2	4.8	- 0.1	4.7
China	5.0	4.4	- 0.2	4.3	- 0.2	4.3
CEE	2.1	1.6	- 0.0	2.1	- 0.1	2.1
Latin America	2.4	1.7	- 0.2	2.1	0.0	2.6
World	3.4	2.9	- 0.1	3.1	- 0.0	3.1

Inflation	2025	2026		2027		2028
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	forecast
US	2.6	3.4	0.1	2.6	0.3	2.2
Euro area	2.1	2.9	0.1	2.4	0.1	2.1
Germany	2.3	2.9	0.2	2.4	0.1	2.0
France	0.9	2.0	- 0.1	1.9	0.2	1.9
Italy	1.7	3.0	0.2	2.1	0.1	1.9
Non-EMU	2.7	2.5	0.1	2.4	0.1	1.9
UK	3.4	3.2	0.1	2.8	0.1	2.0
Switzerland	0.2	0.7	0.2	0.8	0.1	0.6
Japan	3.2	2.9	1.0	2.3	0.2	2.0
Asia ex Japan	0.9	2.4	0.0	2.2	0.1	2.2
China	0.0	1.0	0.0	1.2	0.1	1.5
CEE	13.9	11.6	0.0	9.0	0.2	7.3
Latin America	4.6	4.7	0.0	3.9	0.0	3.0
World	2.9	3.6	0.1	3.0	0.1	2.7

Regional and world aggregates revised to 2015 IMF PPP weights; Latin America Inflation excluding Argentina and Venezuela

Financial Markets

Key Rates	Current*	3M		6M		12M	
		Forecast	Forward	Forecast	Forward	Forecast	Forward
US (upper bound)	4.00	4.50	4.26	4.50	4.57	4.50	4.80
Euro area	2.50	2.75	2.79	3.00	3.11	3.00	3.39
Japan	1.00	1.25	1.49	1.50	1.72	1.75	2.12
UK	3.75	4.00	4.11	4.25	4.47	4.25	4.82
Switzerland	0.00	0.00	0.06	0.00	0.28	0.25	0.77
10-Year Gvt Bonds							
US Treasuries	5.20	5.25	5.26	5.30	5.30	5.35	5.37
Germany (Bunds)	3.63	3.65	3.66	3.65	3.70	3.70	3.75
Italy	4.57	4.60	4.64	4.60	4.70	4.70	4.81
Spread vs Bunds	94	95	98	95	100	100	106
France	4.74	4.80	4.77	4.80	4.83	4.90	4.95
Spread vs Bunds	111	115	110	115	114	120	120
Japan	3.09	3.10	3.15	3.15	3.22	3.15	3.35
UK	5.39	5.40	5.45	5.40	5.51	5.40	5.58
Switzerland	0.65	0.65	0.68	0.65	0.70	0.70	0.71

*3-day avg. as of 28/09/26
**ICE BofA (OAS)

Credit Spreads**	Current*	3M		6M		12M	
		Forecast	Forward	Forecast	Forward	Forecast	Forward
EA IG Non-Financial	83	75		75		80	
EA IG Financial	87	75		75		80	
EA HY	282	265		265		275	
EM Sov. (in USD)	167	160		155		150	
Forex							
EUR/USD	1.14	1.15	1.14	1.16	1.15	1.18	1.16
USD/JPY	158	156	157	154	155	151	153
EUR/JPY	180	179	179	179	178	178	177
GBP/USD	1.32	1.34	1.32	1.33	1.33	1.36	1.33
EUR/GBP	0.86	0.86	0.86	0.87	0.87	0.87	0.87
EUR/CHF	0.94	0.94	0.94	0.93	0.93	0.93	0.92
Equities							
S&P500	7,710	7,795		7,940		8,220	
MSCI EMU	215.1	217.0		223.0		230.5	
TOPIX	4,105	4,135		4,210		4,415	
FTSE	10,687	10,730		10,925		11,310	
SMI	13,931	14,100		14,205		14,530	

Forecast Intervals

3-Months Horizon

10-Year Gvt Bonds	US Treasuries	4.81	5.25	5.69
	Germany (Bunds)	3.04	3.65	4.26
	UK	4.88	5.40	5.92
	Switzerland	0.40	0.65	0.90
Credit Spreads*	EA IG Non-Financial	67	75	83
	EA IG Financial	65	75	85
	EA HY	235	265	295
	EM Sov. (in USD)	146	160	174
Forex	EUR/USD	1.12	1.15	1.18
	USD/JPY	151	156	161
	GBP/USD	1.32	1.34	1.35
	EUR/CHF	0.93	0.94	0.95
Equities	S&P500	7,452	7,795	8,138
	MSCI EMU	208	217	226
	TOPIX	3,972	4,135	4,298
	FTSE	10,397	10,730	11,063
	SMI	13,536	14,100	14,664

*ICE BofA (OAS)

12-Months Horizon

10-Year Gvt Bonds	US Treasuries	4.40	5.35	6.30
	Germany (Bunds)	2.14	3.70	5.26
	UK	4.09	5.40	6.71
	Switzerland	0.14	0.70	1.26
Credit Spreads*	EA IG Non-Financial	62	80	98
	EA IG Financial	59	80	101
	EA HY	212	275	338
	EM Sov. (in USD)	121	150	179
Forex	EUR/USD	1.12	1.18	1.24
	USD/JPY	141	151	161
	GBP/USD	1.32	1.36	1.39
	EUR/CHF	0.90	0.93	0.96
Equities	S&P500	7,521	8,220	8,919
	MSCI EMU	212	231	249
	TOPIX	4,080	4,415	4,750
	FTSE	10,617	11,310	12,003
	SMI	13,371	14,530	15,689

*ICE BofA (OAS)

*The forecast range for the assets is predetermined by their historical volatility. The volatility calculation is based on a 5-year history of percentage changes, equally weighted in the case of the 12-month forecast and exponentially weighted in the case of the three-month forecast. The length of the bars within each asset group is proportional to the relative deviations from their mean forecasts.

 IMPRINT

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